

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 AID-05 COME-00 EB-07 FRB-03 INR-07

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 IO-13 PM-04 H-02

L-03 PA-01 PRS-01 IGA-02 /098 W
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O 022242Z SEP 76

FM AMEMBASSY ASUNCION

TO SECSTATE WASHDC IMMEDIATE 8215

C O N F I D E N T I A L SECTION 1 OF 2 ASUNCION 3695

EO 11652: GDS

TAGS: IBD, ECON, EAID, PA

SUBJ: POSSIBLE CANCELLATION OF IDB TRANS-CHACO ROAD LOAN

REF: STATE 217047

1. I HAVE NO BASIC QUARREL WITH THE TREASURY REPORT OUTLINING THE MANY PROBLEMS THAT HAVE BESET THE TRANS-CHACO ROAD LOAN. IT IS NOT A GOOD LOAN AND PROBABLY NEVER SHOULD HAVE BEEN APPROVED IN THE FIRST PLACE. I QUITE AGREE THAT WE SHOULD BEGIN TO LOOK FOR WAYS OF IMPROVING THE PERFORMANCE UNDER THE LOAN AND CUTTING LOSSES IN AN APPROPRIATE MANNER. HOWEVER, I STRONGLY OPPOSE AN OUTRIGHT CALL BY THE U.S. FOR CANCELLATION OF THE LOAN. AT THIS TIME SUCH AN ACTION WOULD HAVE GREAT POLITICAL COSTS TO THE U.S. THAT WOULD FAR OUTWEIGHT ANY FINANCIAL BENEFITS. THESE POLITICAL FACTORS ARE SPELLED OUT BELOW.

2. IN THE CONTEXT OF OUR BILATERAL RELATIONS, A U.S. INITIATIVE TO CANCEL THIS LOAN COULD NOT COME
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AT A WORSE TIME. WE HAVE JUST INFORMED THE

GOP OF OUR DECISION TO TERMINATE THE U.S. MILITARY GROUP IN PARAGUAY AS OF SEPT 30 THIS YEAR. BOTH PRESIDENT STROESSNER AND FOREIGN MINISTER NOGUES EXPRESSED THEIR STRONG DISPLEASURE AT THE UNEXPECTED ACTION. THEY WERE PARTICULARLY UPSET BY THE FACT THAT BOLIVIA, PARAGUAY'S TRADITIONAL FOE, WAS NOT AMONG THE U.S. MILITARY GROUPS IN LATIN AMERICA SLATED FOR EARLY TERMINATION. THIS IS THE LATEST AND PERHAPS MOST SERIOUS EPISODE IN A LONG HISTORY OF PARAGUAYAN RESENTMENT OVER THE COMPARATIVELY LARGER PROGRAMS OF U.S. MILITARY ASSISTANCE TO BOLIVIA, WHICH THE PARAGUAYANS BELIEVE WILL ONE DAY BE USED AGAINST THEM. IT WOULD ALSO COME AT A TIME WHEN PARAGUAY IS TRYING TO ADJUST TO THE PLANNED PHASE OUT OF THE U.S. GRANT MILITARY ASSISTANCE AT THE END OF FY77. OVER THE YEARS, THIS TYPE OF U.S. ASSISTANCE HAS BEEN MOST HIGHLY PRIZED BY THE GOP. ITS PLANNED TERMINATION, WHICH DOES NOT SIT WELL WITH THE GOP, ADDS AN ADDITIONAL NEGATIVE DIMENSION TO THE PRESENT SETTING.

3. IT IS NOT AT ALL CORRECT TO SAY THAT THE GOP DOES NOT ATTACH HIGH PRIORITY TO THIS PROJECT. THE CONTRARY IS TRUE. PRESIDENT STROESSNER PERSONALLY ATTACHES THE HIGHEST PRIORITY TO THE TRANS-CHACO HIGHWAY PROJECT, WHICH WAS ORIGINALLY UNDETAKEN AT HIS INITIATIVE. PRESIDENT STROESSNER'S PERSONAL INTEREST IN THE HIGHWAY PROJECT WAS UNDERSCORED AGAIN LAST APRIL WHEN HE WROTE TO THE PRESIDENT OF THE IDB EXPRESSING HIS CONCERN THAT THE IDB WOULD NOT APPROVE CONTINUED DISBURSEMENTS ON THE TRANS-CHACO LOAN. THE BASIC MOTIVATION WAS NOT THE ECONOMIC IMPORTANCE OF THE CHACO, ALTHOUGH IT HAS POTENTIAL FOR DEVELOPMENT, BUT THE POLITICAL NEED TO INTEGRATE THIS VAST, ISOLATED REGION WITH THE EASTERN HALF OF THE COUNTRY. PARAGUAYAN SOVEREIGNTY OVER THE CHACO WAS ONLY

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CONFIRMED FOLLOWING THE 1932-35 WAR WITH BOLIVIA, AND, WHETHER JUSTIFIABLE NOR NOT, THE GOP REMAINS VERY APPREHENSIVE OVER SUPPOSED BOLIVIAN DESIGNS TO RECOVER THIS TERRITORY.

4. OTHER EVENTS BEAR OUT THAT THE DEVELOPMENT OF THE CHACO IS ONE OF GOP'S HIGHEST PRIORITY GOALS, WITH THE TRANS-CHACO HIGHWAY VIEWED AS THE IN-

DISPENSABLE FIRST STEP OF SUCH DEVELOPMENT.
IN PROJECTS DIRECTLY RELATED TO THE TRANS-CHACO
ROAD, A \$20 MILLION BRIDGE OVER THE PARAGUAY
RIVER IS NOW UNDER CONSTRUCTION A FEW MILES
FROM ASUNCION TO LINK WITH THE HIGHWAY, AND
ARGENTINA HAS JUST SIGNED A \$6.5 MILLION AGREEMENT
TO BUILD A ROAD CONNECTIN ITS HIGHWAY SYSTEM
TO THAT BRIDGE AND THE TRANS-CHACO. THESE
PROJECTS WERE JUSTIFIED AND UNDERTAKEN IN REFERENCE
TO THE TRANS-CHACO HIGHWAY, AS WELL AS ARGENTINE-
PARAGUAYAN INTEGRATION. IN ADDITION, THE UNDP IN
ACCORDANCE WITH GOP DESIRES, HAS INCLUDED DEVELOP-
MENT IN THE CHACO AMONG THE FOUR TOP
PRIORITY FIELDS.

5. I DO NOT BELIVE GOP LOW COUNTERPART
CONTRIBUTION SHOULD BE INTERPRETED AS AN INDICATION
THEY ATTACH LOW PRIORITY TO THE PROJECT. MY
VIEW IS BASED ON SEVERAL FACTORS. FIRST, THE
IDB HAS CONSISTENTLY INCREASED ITS CONTRIBUTION
WITHOUT REQUIRING A CORRESPONDING INCREAAASE OF
GOP COUNTERPART COMMITMENT, WHICH HAS GIVEN RISE TO
THE UNDERSTANDABLE BELIEF THAT IT WAS NOT NECESSARY
FOR THE GOP TO DO THIS. SECONDLY, WE QUESTION
GIVEN THE MANY PROBLEMS OF THE PROJECT AND THE SLOW
RATE OF DISBURSEMENT OF IDB FUNDS WHETHER THE GOP
WAS IN FACT IN DEFAULT. AT LEAST, SOME CONFUSION
MAY HAVE EXISTED. FINALLY, WE WOULD NOTE
THAT MINIMAL COMMITMENTS AND SLOW COUNTERPART

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

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FM AMEMBASSY ASUNCION

TO SECSTATE WASHDC IMMEDIATE 8216

C O N F I D E N T I A L SECTION 2 OF 2 ASUNCION 3695

DISBURSEMENTS ARE STANDARD PRACTICE IN PARAGUAY. THIS THEME RUNS CONSISTENTLY THROUGH ALL EXTERNALLY FINANCED PROJECTS, BY THE IDB, WORLD BANK, UNDP OR AID.

6. AS I INDICATED EARLIER, I THINK THE WASTE AND LACK OF PROGRESS ON THIS PROJECT IS DEPLORABLE AND AGREE THAT SOMETHING SHOULD BE DONE ABOUT IT. HOWEVER, I BELIEVE THE MAJOR RESPONSIBILITY FOR THIS SITUATION LIES WITH THE IDB ITSELF, NOT WITH PARAGUAY. I THINK THE IDB HAS BEEN ENTIRELY TOO LAX IN ENFORCING THE LOAN AGREEMENT, IN PARTICULAR IN GOING AHEAD AND MAKING REPEATED DISBURSEMENTS THEREUNDER WITHOUT THE AGREED UPON COUNTERPART COMMITMENT BY THE GOP. THE USG SHOULD TAKE NO ACTION AT THIS TIME WHICH THE GOP COULD CONSTRUER AS A USG INITIATIVE TO TERMINATE THE PROJECT. IT WAS ONLY THIS PAST APRIL THAT THE U.S. EXECUTIVE DIRECTOR AGREED WITH THE IDB MANAGEMENT PROPOSAL TO ALLOW AN 80/20 PERCENTAGE SPLIT OF PROJECT COSTS BETWEEN THE BANK AND THE GOP RESPECTIVELY. I AM NOT CONFIDENTIAL

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AWARE OF ANY SIGNIFICANT CHANGE IN THE SITUATION SINCE THAT TIME. THE INCREASED DISBURSEMENT RATE SINCE MARCH OF BANK FUNDS SHOULD NOW BE RELATED TO THE DELIVERY OF THE AGREED GOP COUNTERPART CONTRIBUTIONS.

7. IF IT BECOMES NECESSARY TO CALL FOR THE CANCELLATION OF THE LOAN THE APPROPRIATE PRIME MOVER WOULD BE IDB MANAGEMENT. IDB MANAGEMENT'S OPINION REGARDING THE PROJECT IS PROBABLY SIMILAR TO THAT OF TREASURY AND IT SHOULD BE MOTIVATED TO TAKE ACTION. IF, IN FACT, THE GOP IS NOT DELIVERING COUNTERPART IN ACCORDANCE WITH THE LOAN AGREEMENT, THE IDB SHOULD ADVISE THE GOP THAT, PURSUANT TO THE APPROPRIATE CLAUSE OF THE LOAN AGREEMENT, NO ADDITIONAL DISBURSEMENTS WILL BE MADE UNTIL THE COUNTERPART IS DELIVERED AND THAT IF THE COUNTERPART IS NOT DELIVERED BY A CERTAIN DATE THE LOAN WOULD BE CANCELED. ON THE EXPECTED GOP APPEAL TO THE

BOARD, THE GOP WOULD BE CONFRONTED WITH A
MANAGEMENT RATHER THAN USG PROPOSAL.

8. FINALLY, I WOULD LIKE TO PUT TO REST THE
NOTION THAT AN ALTERNATE PROJECT IN EASTERN
PARAGUAY COULD SOMEHOW COMPENSATE FOR THE CAN-
CELLATION OF THE TRANS-CHACO LOAN. THERE IS NO
EQUIVALENT PROJECT IN EASTERN PARAGUAY THAT COMES
ANYWHERE NEAR APPROACHING IN GOP EYES THE IM-
PORTANCE AND HIGH PRIORITY OF THE TRANS-CHACO
HIGHWAY. MOREOVER, THE INTERNATIONAL FINANCIAL
INSTITUTIONS ALREADY ARE OFFERING TO FINANCE MORE
PROJECTS THAN PARAGUAY IS CAPABLE OF
DEVELOPING. TO ENHANCE THIS CAPABILITY, THE
IDB IS ESTABLISHING A FUND TO FINANCE FEASIBI-
LITY STUDIES TO IDENTIFY AND PREPARE FUTURE
PROJECTS TO BE FINANCED BY IDB AND OTHER LENDERS.
ADDITIONALLY, IDB HAS EMBARKED UPON A SIZEABLE
TECHNICAL ASSISTANCE PROGRAM WHICH ALSO IS AIMED
AT GENERATING BANKABLE PROJECTS. CONSEQUENTLY, THE
OFFER OF AN ADDITIONAL OR ACCELERATED LOAN FROM
IDB WOULD BE AN EMPTY GESTURE.
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9. THIS MESSAGE REFLECTS JOINT EMBASSY-USAID
VIEWS.
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Message Attributes

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